Manitoba Agriculture

Taxation – Miscellaneous Tax Deductions

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Deductible expense items for tax purposes are usually based on their relationship to the earning of revenue for a business. This fact sheet outlines and clarifies some of these expense items that might arise in an agricultural context when filing a tax return for your business.

Patronage Dividends

Patronage payments are payments made by a business to a customer, based on a percentage of the patronage to the business over a period of time. This is usually associated with Co-operative corporations but is also used by other business organizations.

All patronage dividends are taxable, ***except for personal goods and services***, when received by the farmer. Patronage dividends are usually comprised of two cash components. Cash that is paid to the member and cash held back by the Co-op for member equity. This total cash dividend is recorded as income upon receipt. The reasoning is that the full cost of the goods and services bought in the course of business would have been deducted as an expense for income tax purposes.

If a dividend of over $100 is declared, a 15% withholding tax is levied and forwarded to Revenue Canada. In this case, the withholding tax should be included as a credit on your tax return.

Automobile Expenses

The deduction of automobile expenses for income tax purposes is directly related to use of the vehicle in a business capacity. The expense deduction can be based upon the business kilometres relative to personal use. However, if the vehicle is used frequently during normal work hours, but the kilometres useage is low, the CCA (Capital Cost Allowance) or rent expense can be deducted based upon a reasonable combination of mileage and time used for business purposes.

A daily log will provide an accurate record of personal vs. business use to calculate the expense deduction. With ownership of a pick-up truck and car, farm businesses usually allocate 100% of the farm expense to the pick-up truck and leave the car expenses as personal use only. If passenger vehicles are used more than 90% of the time for business use then all the costs can be deducted as an expense.

The deductibility of expenses for the pick-up truck is also restrictive in that the capacity is not to exceed one driver and two passengers combined with more than 50% use for business. With newer trucks moving to extended cabs, 3 and 4 door models, the resulting increase in passenger space, causes expense deductibility to be questioned.

Revenue Canada's opinion of Extended cabs is that they are considered passenger vehicles unless used > 90% for business purposes. However, Crew cabs are considered as passenger vehicles which restricts any business deductions.

Passenger vehicle capital cost for calculating CCA is restricted when they exceed the prescribed limit as outlined in the Table below. Each passenger vehicle that exceeds these limits is entered in Class 10A for CCA purposes.

Effective Date	***Cost Limit***
June 18, 1987	$20,000
September 1, 1989	$24,000
January 1, 1991	$24,000 + PST/GST
January 1, 1997	$25,000 + PST/GST
January 1, 1998	$26,000 + PST/GST
January 1, 2000	$27,000 + PST/GST

Lease costs of vehicles are also deductible to the extent of their business use. And similar to the capital cost of the vehicle, there are also limitations on the costs set by Revenue Canada. Lease examples are shown in the "*Farming Income*" Guide, Form T4003, provided by Revenue Canada. (Appendix A)

As a result, farmers are encouraged to consult with their accounting professional when contemplating the decision to buy or lease a vehicle. The information provided should outline the tax benefits and consequences to be considered with respect to the overall farm business.

Food, Beverage and Entertainment Expense

Food, beverages, and entertainment expenses that occur while earning business, property, and in some cases, employment income, can be deducted to 50% of the amount paid. This rule is deemed to apply as 50% to the lesser of 1) the amount actually paid or payable, and 2) an amount that would have been reasonable to pay.

Exceptions to this rule, which specify other tax treatments that will not be dealt with here, are:

1.) Food, entertainment, etc. provided by restaurants, hotels and airlines.
2.) Fund raising events that benefit a registered charity.
3.) Purchases made by a payer with a client, that are billed later for payment by the client.
4.) Employees at a remote location.
5.) Amounts included in an employee's income.
6.) Amounts for travel on an airplane, bus or train.
7.) Special events paid for by employer; limited to six or fewer events held in one calendar year.

GST on food, beverage and entertainment expenses can be claimed as a GST Input tax credit. The overall result is that 50% of the GST is reimbursed to the payer.

Conference fees that include meals are expected to have a reasonable part of the fee broken down for meal expense. If not, then Revenue Canada states that $50/day relates directly to meal costs with the seminar cost reduced by the same amount.

Convention Expenses

For a farmer attending a convention that is directly related to business and professional interests, the resulting expenses can be used as deduction. Current tax legislation allows for expense deductions of not more than two conventions during the year. Expenses incurred in attending a business or professional conference outside the sponsoring organization's geographic area of ordinary activity are not deductible. However, if you attend a convention in another country whose business organization is related to your overall business, then the resulting deductions may be used.

Proof of attendance and relevant expense records are required to claim the deduction. The 50% rule for meal and entertainment expense deductions is also applied in this situation. If your spouse is also attending the convention and is actively farming then deductions can also be made. Otherwise expenses incurred that relate directly to your spouse and/or children are considered to be personal, and are, therefore not deductible.

Expenses of Attending Courses

Full deductibility of expenses that are incurred for course registration and materials are allowed for courses that further develop or maintain skills related to business activities.

Taking a computer course, animal production, or crop production seminar are all eligible expenses as they develop your personal skill inventory. Costs incurred to attend the courses, such as transportation, lodging and meals, are also deductible under the tax guidelines covered earlier.

Earning a degree or diploma to obtain professional qualifications is considered a capital investment and is therefore, not tax deductible.

Tool Expenses

Tools purchased for under $200 are entered under Class 12 for CCA purposes and are allowed to be written off in the year of acquisition. For tools purchased over $200, these items are entered in Class 8 for CCA purposes and are depreciated at a rate of 20%.

Computers and Software

Computer hardware used in the course of the farming business can be deducted as an expense. This equipment is entered in Class 10 for CCA purposes, which allows a depreciation rate of 30%. Occasional personal use will not affect this business deduction.

System operating software such as MS DOS, Windows, etc. which allows the computer to function is to be included as a hardware expense and added to Class 10.

Farm software which could include accounting, production records, word processing, spreadsheets, etc. are also considered a capital asset. Class 12 for CCA is used, which allows 100% deduction subject to the half-year rule.

Software that costs less than $100 is allowed as a full deduction under office expenses.

Business Use of Home Expenses

Two conditions are required to be able to deduct business expenses from the use of your home:

1.) the work space is your principal place of business; or
2.) farming business income is derived from use of the workspace and the workspace is also used regularly to meet with your customers or clients.

Expenses that can be deducted are on a reasonable basis to support the business activity. For example, the square footage of the space used for business divided by the total square footage of the house will provide the proportion of business expenses that can be deducted. The majority of farm operations have separate designated office space in the home that clearly defines the business area and related expense.

Expenses can include heating, home insurance, electricity, cleaning materials, property tax, mortgage interest, and capital cost allowance (CCA). If you do plan to claim CCA expense, keep in mind that when the house is sold that potentially taxable Capital Gains may apply as well as any recapture of CCA from previous years.

If you are renting your home, a portion of the rent plus expenses as outlined can also be claimed as a business expense.

Another important tax consideration is that business home expense deductions on your tax return cannot decrease your net income to create a farm income loss. If this does occur, expenses can be carried forward to apply against positive farm income earned in future years.

Sale of Farmland with a Standing Crop

In some cases, due to sale timing and other factors this situation does occur. If the value of the standing crop is not separated from the purchase price of the land only, then it will increase the potential Capital Gain that might be paid by the seller. The purchaser would also have a higher cost base for the property in this scenario.

If the value of the crop alone is stated, then the seller will declare the crop as income. The purchaser of the property will then list the purchase of the crop as an expense for tax purposes.

Legal Fees on Property Transfers

When legal assistance is used in the sale and/or transfer of property, the legal costs can be added to the value of the property for Capital Gains valuation. If this procedure is used, then legal costs cannot be used as a deduction for current expenses.

Legal costs are only considered for tax purposes as operating costs, if the buying and selling of land is considered as an ongoing business.

Expenses Related to Borrowed Money

Certain expenses that result when loans are obtained to purchase assets that will earn income from a business or property are deductible. For individuals who pay to register a mortgage on farm property this expense can be included as an expense deduction.

Life insurance that may be required as a loan condition can have the resulting premiums deducted as an expense if:

- the policy is assigned to the lender.
- the policy is for term insurance.
- and, the coverage level relates to the amount of the loan.

Wages to Family Members

Revenue Canada defines a wage as payments to a person for services rendered; or the amount paid periodically for the labour or services of a worker or servant. This payment of wages may not necessarily be based upon time. Wages deducted for family members, in general, must be reasonable.

Education and Tuition Credits

Tax credits of 17% of tuition fees (which must exceed $100) and education amounts of $80/month are available to students attending specified education and training institutions. Commencing with the 1997 tax year, the student is able to carry forward any unused education and tuition credits until sufficient income is available to absorb them.

If the student does not wish to use the carry forward option, the ability to transfer these credits to the student's spouse, parent, or grandparent can also be exercised.

Registered Education Savings Plan (RESP)

This plan is set up by the taxpayer to provide future funds for the educational requirements of their child(ren). Income that is generated from an RESP investment is not included in the income of the contributors for tax purposes. When the beneficiary starts drawing the income from the plan in the form of educational assistance payments, this amount is included in the beneficiary's income.

Contributions may not exceed $4000 per beneficiary per year with an overall limit of $42,000 per beneficiary. The plans must only provide benefits to full time qualifying students and must terminate after 25 years. A Penalty tax of 1% per month is made on over contributions to the plan.

Canada Education Savings Grant Program (CES)

This program was proclaimed in the '98 Federal budget and benefits those individuals that have RESP's. Under the program the government will provide a CES grant of 20% on the first $2000 of annual contributions made to RESP's for beneficiaries up to and including age 17.

The CES grants are not included in calculating the beneficiaries annual and lifetime RESP contribution limits. Once the beneficiary is enrolled as a full time student in a qualifying educational program at a post-secondary educational institution the culmative CES grants, along with the accumulated RESP income, is paid via the educational assistance program.

Lifelong Learning Program (LLP)

After 1998, provision for RRSP annuitants to make tax-free withdrawals of RRSP funds to finance full-time training or education for themselves or spouses is allowed. These withdrawals must not exceed $10,000 a year. Several withdrawals from RRSP accounts that are held can be made provided the total withdrawal does not exceed the annual limit.

Withdrawals are allowed for up to 4 years provided that the total amount does not exceed $20,000. Repayment of the funds must be done within a ten-year time frame to a specified formula. Otherwise, the amounts withdrawn or portions of may be included in income for tax purposes. Certain rules also apply for repayment if the student enrolled quits prior to course completion.

The recipient or recipient's spouse of the RRSP funds must enrol in a qualifying educational institution for a course of at least three months duration. The enrolment must occur within the year that the RRSP funds are withdrawn or before March of the following year.

For Further Information Contact Your Local Manitoba Agriculture Office.

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